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Saving mill wins firm national honor

By TOM ADAMS

Perinton-based JC Jones & Associates LLC received a national award this week for its work in resuscitating a nearly 200-year-old paper-processing mill, Knowlton Specialty Papers Inc.

A turnaround and restructuring specialist founded in 1997 by former Goulds Pumps Inc. controller Jeffrey Jones, JC Jones is slated to receive the Turnaround Management Association's Turnaround of the Year Award in the small-company category of \$50 million or less in revenue at the time of turnaround.

It and five other category winners were honored during the association's annual convention in Chicago.

JC Jones partner Ronald Castor led a project team that rescued Knowlton Specialty Papers from financial woes that included a 2002 explosion of recently installed new equipment, a lengthy battle with insurance carriers as a result of the blast and more than \$2 million in annual operating losses that threatened to drive the 197-year-old company into bankruptcy.

"With the tradition of Watertown and this company that's going to be 200 years old, I didn't want to be the guy that was the last one there to close the door," Castor said. "It's important to realize that a company most people thought had had its 200 years now has a new lease on life. The people that are in place now are taking it to a higher level."

JC Jones employs 12 full-time and 11 part-time employees, including seven full-time staffers at its corporate headquarters on Lockwood Drive in Bushnell's Basin. It has small offices in Syracuse, Detroit and Dallas.

"With Knowlton, that's the worst of the worst," said Jones, the firm's president and CEO. "But on the other end of the spectrum, we're working with very good companies—Constellation Brands, for example—that are looking to get better in particular areas."

Daniel Mahany, president of commercial printing firm Canfield & Tack Inc., solicited JC Jones' help two years ago to make his company more efficient financially.

"They helped us formalize our procedures, tying our management information systems to our financial ledger," Mahany

said. "It doesn't sound very sexy, but it was necessary."

"I was a little skeptical at first because my background is in accounting," he said of the impact of JC Jones' work. "I'm a detail-oriented person. But they really helped us."

Canfield & Tack retains JC Jones for periodic updates, Mahany said.

Jones, president as well as founder, would not divulge financial details.

"Our (annual) growth has been solid," he said. "It's typically been the 20, 30, 40 percent kind of growth."

"We're a relatively small firm, but we're certainly not just a Rochester firm. I would guess that only 10 to 20 percent of our business is in Upstate New York. The rest of our business is from all over the world."

JC Jones works with industries of all sizes and specialties, Jones said. The firm generally works with eight to 12 clients at a time.

"The smallest company we've ever worked with is about \$3 million in revenue," Jones said. "The largest is \$14.5 billion. When you're working in those bigger companies, they're typically multinationals."

"We don't go in and do the turnaround of the \$14 billion company. We're just not there sizewise. They use us surgically. If they have a problem with a division, or a particular business process, they would use our help to try to improve performance in a particular area."

Goulds Pumps

A native of Michigan, Jones earned a bachelor of science degree in accounting from Detroit's Wayne State University. He went to work for KPMG LLP in Detroit, was transferred to Syracuse and then took a job with Seneca Falls-based Goulds Pumps.

He spent 18 years at Goulds Pumps, specializing in problem solving as a controller



Photo by Kimberly McKinzie

Turnaround firm JC Jones has developed a reputation for fixing core issues first, says President and CEO Jeffrey Jones, right. Ronald Castor, left, is a partner in the firm.

at several locations. He transformed the company's internal audit function from a punitive style to a value-added function "that could help the company grow and manage risk," he said.

"It became a passion of wanting to leave and develop this on my own," Jones said. "I've always been entrepreneurial. Luck being with me, ITT (Industries Inc.) came in to acquire Goulds Pumps. It was through that acquisition that (I got) the opportunity to jump ship and start."

On the day he left Goulds, in July 1997, he registered JC Jones as an LLC and got to work. Three months later, he hired his first employee, Patrick Guisto, whom Jones had hired at Goulds and is now vice president at JC Jones.

The firm's primary focus is on performance improvement and turnaround, followed closely by merger and acquisition support. It also provides strategic audit advisory services and strategic information technology services.

Castor joined the company shortly after leading a reorganization of Rochester's Flower City Glass Inc., which filed for bankruptcy protection in 1994.

"I'd go from distressed company to distressed company and get hired on as a finance or operations person, and work until the company got better and move on," Castor said. "Jeff had seen what I was doing (with Flower City Glass). He said, 'Instead of doing one of them, how would you like to do five or six of them at the same time?' Of course, I said, 'That sounds like fun.'"

Jones set up a one-person office in Syracuse five years ago. It now has two employees. The one-person Detroit office opened three years ago and is about to add a third employee. The Dallas office opened two months ago, with one employee.

"We didn't say strategically we want to be in Dallas," Jones said. "There was a person in Dallas we wanted to hire. That (presence) will, over time, grow to maybe eight people. Those eight people would travel to wherever our work is, and in the meantime they're going to continue to work on developing that local region."

The same blueprint was used in Detroit and Syracuse and will be used for further expansion, he said.

"Where we go next is going to be where we find the caliber of people that we're looking for, with the right backgrounds and experience," he said. "We then look at it and say, 'Is that a good market?'"

The Knowlton project

JC Jones became involved with Knowlton Specialty Paper in 2003, beating out two other firms for the contract.

"Our assessment surprised many people, including the bank," Castor said.

"Our assessment was they actually had a very good business model. We just had to help them get through the issues that were outstanding."

"(JC Jones) had a significant impact on our restructuring," Knowlton chairman and CEO Frank Cean said. "They recognized many of the problems we had. We're doing very well now."

The equipment explosion, which killed one worker and injured six, took out 40 percent of the manufacturing facility.

Knowlton outsourced much of its work after the accident to try to fulfill contracts. Meanwhile, work to repair the damage was based on estimates by two large insurance carriers, Castor said.

The building was renovated by the end of the year, but one insurer revised its commitment of \$10 million to \$3 million, and the other changed the cause of the accident to human failure rather than mechanical, preventing reimbursement.

"All of a sudden they had millions of dollars owed that were not available," Castor said.

In addition, Knowlton had purchased two other facilities, in Utica and Troy, N.H., just before the explosion and were trying to integrate them.

"Lastly, the economy during that period was nose-diving in the paper industry," Castor said. "All that ganged up on them in mid-2003."

JC Jones' turnaround plan, however, was more hopeful than those of the two other bidders.

"Everybody, including the other turnaround firms that came in, was looking down the hole and kicking dirt onto the company," Castor said. "All their answers were to liquidate."

That is what turnaround companies too often do, Jones said. They pour additional money into a struggling company or take it into Chapter 11 bankruptcy protection.

"But it doesn't fix any of the fundamental issues that caused the problems in the first place," Jones said. "We assess

the core of the business and dive right in to fix the business. Then, if you need to re-finance or go into Chapter 11 protection, you've solved the basic problem."

The Knowlton turnaround took six months, Castor said.

Knowlton filed suit against the insurance carriers to recoup the additional \$7 million. The case was settled, with Knowlton getting \$6 million, Castor said.

It has sold the Utica and New Hampshire facilities to equity firms. The move generated cash to reduce debt and liabilities.

JC Jones also looked at ways to cut costs and improve efficiencies.

"We did a lot of analyses and found that they weren't getting enough money for their products," Castor said. "They were hesitant about raising their prices."

Price increases resulted in a 17 percent increase in revenue margins, without the loss of any customers, he said.

JC Jones measured Knowlton's manufacturing variances.

"They were showing us that we were \$200,000 negative each month, on average," Castor said. "By the end of that six months, we had turned that \$200,000 around, plus improved the process to gain \$100,000."

JC Jones shifted money away from research and into development.

"We gained \$500,000 in that part and were servicing the customers better," Castor said.

Knowlton was breaking even by the end of 2003 and showing profits for the first three months of 2004, Castor said.

"They haven't looked back since," he said.

In addition to saving some 100 jobs, Knowlton since has added nine.

"It's not often that a financial institution will allow you the leeway to take something that bad and run with it," Castor said. "I think JC Jones has developed a reputation of, if it's bad, take it to JC Jones. We have credibility as a firm to do something like this."

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